

Aug. 3, 1994

LETTER 1153

TIME FLIES: I stare at the top of this Letter, and I say to myself, "Gad, I don't believe it; this is Letter number 1153. Have I been writing these Letters for 36 years?" Yet it seems like only yesterday that I spoke to former *Barron's* editor, Bob Bleiberg (it was back in August, 1958), telling him that I believed the market, according to my Dow Theory studies, was on the edge of a huge bull market rise. Bob suggested that I put my thoughts in writing. That prompted my first article for *Barron's*, a piece entitled, "*Dow Theory Revisited*." My stock market "premonition" proved correct, the market took off on the upside in a spectacular and extended rise. That first *Barron's* article aroused great interest and in a matter of a few weeks I received over 300 new subscriptions (which, believe me, was a lot in those days). My fledgling advisory report took wing -- I was in business. After the success of my first article, I wrote a series of 25 articles for *Barron's* extending into the 1970s. Ah, those were the days.

I've written 1153 Dow Theory Letters over a period of 36 years -- through a double hernia operation, five kids, three marriages and two heart attacks -- and happily, I've never skipped a single Letter. I used to write a Letter every ten days. But that proved too much for me, so in 1977 I backed off to a six-page Letter every other week. Friends tell me that I should cut back further, but I really enjoy writing these Letters, they keep me busy, and I'm staying on this schedule.

Last week on July 22 I turned 70, a number that I can't really relate to. ("Why," I ask my wife Faye, "do I still feel like a teenager?") But listen -- Rose Kennedy was also born on July 22 (but in 1890), and last week she turned 104. Now there's a target to shoot for.

My mentors were the great Dow Theorists, Robert Rhea and George Schaefer. No one was better at "reading" the Averages than the brilliant Robert Rhea. And no one I've ever known or heard about possessed George Schaefer's "feel" or instinct for the all-important primary trend of the market. Rhea called the great July 8, 1932 bottom, and he called it almost to the day -- incredible. And Schaefer identified the June, 1949 bear market bottom within a matter of days. Furthermore, he stayed fully invested all through the long bull market right up to the top in 1966. That was an amazing feat, believe me.

Schaefer once told me, "Richard, when I retire or die I want you to take over my work in the Dow Theory." I told him I'd do my best, and I've kept my word (although in truth this is a lonely business, and I've often wished that George was here to back me up or provide me with some of his wisdom and insights).

Of course, there's no more crucial information for the investors than the direction of the primary trend of the market. In a bull market the primary trend is a fortune-maker; in a bear market it's the path to poverty. I've studied the markets ever since the end of World War II, and I'm still at it. The investing business is a fascinating business. It's also a learning business, and as you probably well know -- the learning never stops -- it better not.

People ask me whether I have any "understudies" who I feel are prepared to carry on the Dow Theory. In all honesty, I don't have a Dow Theory understudy, nor do I know of nor met with nor read anyone who impresses me as a great Dow Theory student. To know and fully understand the Dow Theory, I believe you have to study the works of Dow, Hamilton, Rhea, Schaefer, Edwards and

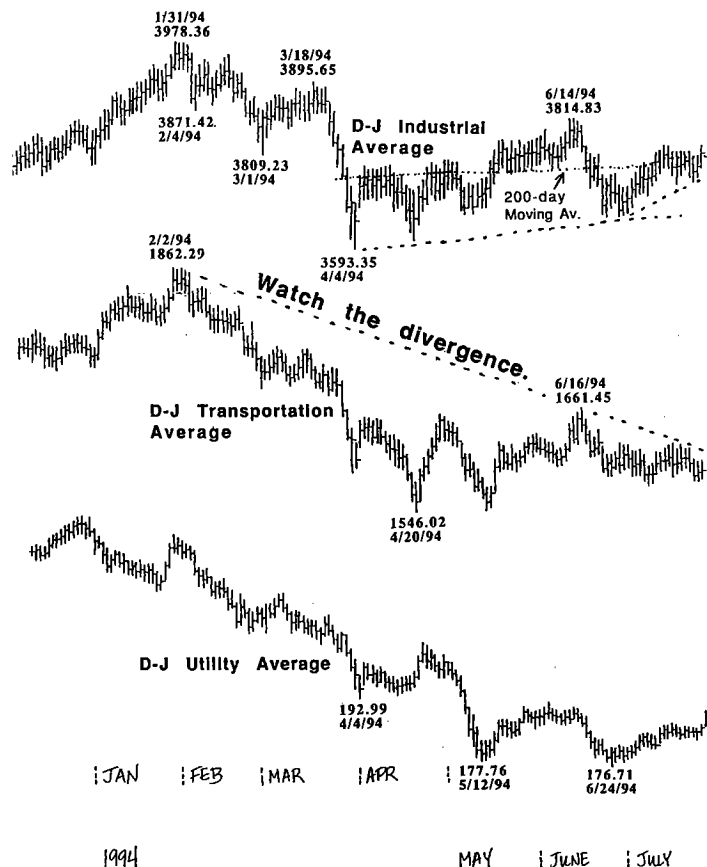
July 22 DJIA 3735.04; PTI 4002; A-D Ratio -6.42
July 29 DJIA 3764.50; PTI 4007; A-D Ratio -6.24
Dow Yield: 2.72%; Dow Price/Earnings: 20.4
Dow 200-day MA: 3755; Dow 30-day MA: 3712
Dow Times Book Value: 3.36; PTI 89-day MA: 4014
Percentage of Undervalued Blue-chips: 14%
Dow Low Risk Buy Index: +6; Gold-PTI: 933
Gold 40-week MA: 382

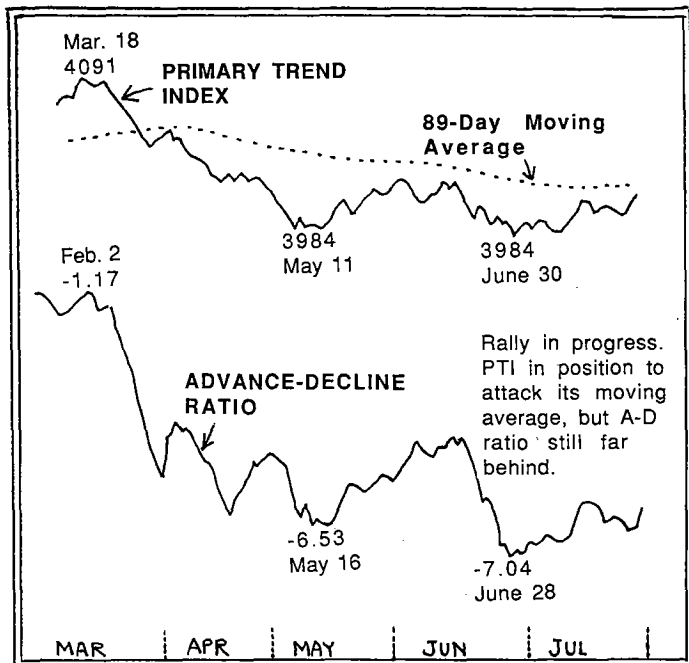
Magee and maybe even some of my own writings. And I don't mean merely read these works, I mean **STUDY** them, assimilate them, ponder them, fully understand them. And on top of that, you must be absolutely obsessed with the markets. Anything less and you're not going to cut it.

DISCOUNTING: One of the most difficult concepts to get over to investors (even experienced investors) is the thesis that the market discounts, it looks ahead and it makes its adjustments before the event. Many believe they understand the discounting function of the market, but then when they have to put this concept into actual use, they miss the boat. There's a big difference between theory and practice.

In view of the above, consider this -- on September 13, 1993, the D-J Utility Average struck its all-time closing high of **256.46** and then turned down. On January 31, 1994, the D-J Industrial Average hit its all-time closing high of **3978.36** and then turned down. On February 2, 1994, the D-J Transportation Average recorded its all-time of **1862.29** and then turned down.

Since that time business conditions in the US have actually improved. Employment is up, unemployment is down, earnings in





many cases are up, corporate dividends have been increased, inflation (at least according to the government) is down and Fed Chairman Alan Greenspan tells us (actually he told Congress) that business was enjoying "the ideal combination of rising activity, falling unemployment and slowing inflation."

In view of all this happy news, how is it that the Averages aren't at new all-time highs? The answer is that at their recent highs, the three Averages had discounted the best that could be seen ahead. At their bull market highs the Averages had discounted all the glad tidings that Alan Greenspan was telling Congress about. At their bull market highs the Averages had already discounted the current rise in corporate earnings and dividends, the pick-up in business, and the increase in employment.

Now here's the crux of it. Once the Averages have discounted the best that can be seen ahead -- there's no place to go for the Averages but down (and I'm talking a bear market). The only

question is HOW will the Averages and the market go down? Will they keel over in a sudden crash? Will they gradually and deceptively slide off their highs? Will they break suddenly, then dribble back and break again? Or will the Averages drop sharply, then reignite hopes by heading back to their former highs (with perhaps one Average actually recording a new high while the other refuses to confirm)? The variety of patterns is endless.

So how the market acts from there depends to a large extent on investors' perceptions of the future path of the economy. If the economy is fated to "hang on" for months, maybe even a year, then the Averages will decline from their highs, but then back and fill for as much as a year (is that what they're doing now?).

On the other hand, if the economy is fated to contract rapidly, then, once hitting their peaks, the Averages and the stock market as a whole might enter into a persistent and deadly decline (as we saw during 1973-1974).

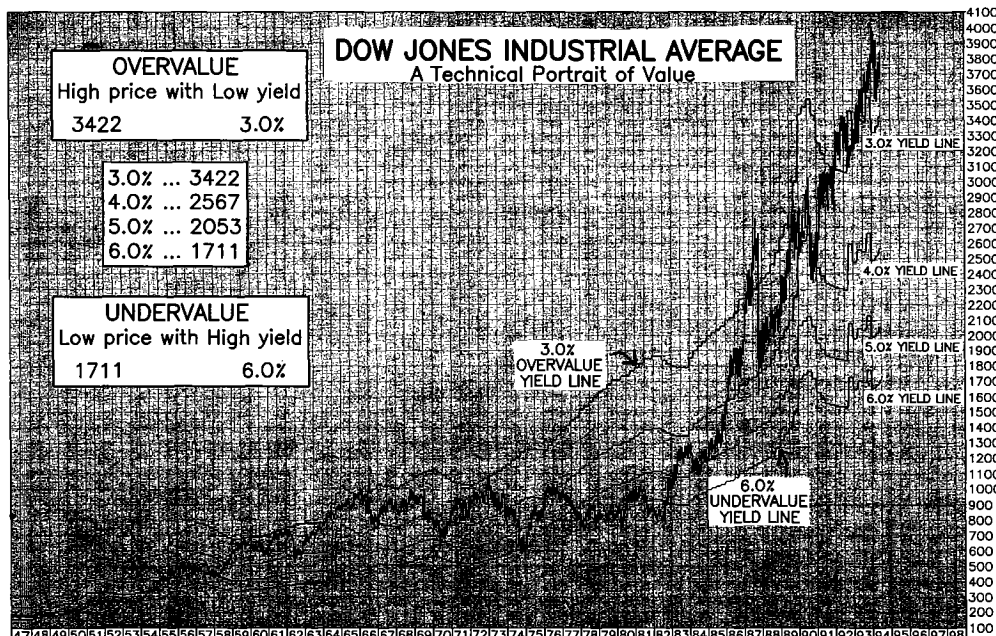
The major point I am trying to get across is that once the bull market highs are set by the Averages, the main, overall path of the Averages and probably 90% of all stocks is down. But the pattern of the decline, the path down, the timing of the descent, and the distance to the final bottom -- that's the part we don't know.

We do know this. We know that bull markets have always been characterized at their highs by Dow dividend yields of 3% or less. By the same token, primary bear markets at their lows have been characterized by Dow dividend yields of around 6% or more.

So although we don't know what path or specific pattern this bear market is fated to take, we can surmise that before it ends the Dow will sell at a dividend yield of 6% or more. If that occurs, assuming the current level of dividends, the Dow at 6% would sell for around 1700 (but remember, dividends are almost always cut during a bear market).

Below I have included a tell-tale chart which is published by my friends at *Investment Quality Trends* here in La Jolla. The chart traces the Dow going back to 1947. The four thin lines show where the Dow would be at yields of 3%, 4%, 5% and 6%.

Note that the current Dow has been outside and far above the 3% yield zone for many months. In the past, this has always been a danger signal. Also note how far the bear market would have to take the Dow in order for a 6% yield to materialize. Study this chart -- it's the most fundamental, time-tested study in the entire investment field. At tops and bottoms, of course, this study's validity is always denied (and we hear that "this time it's different," the most dangerous words in investing).



CURRENT PICTURE: So far, we haven't had much of a "summer rally." The Dow has bounced back a bit, but most stocks have had a hard time of it. To me it seems a case of the market "working off" an over-sold situation, but without getting very far on the upside. There's been a lot of churning, a lot of time wasted, a lot of talk, but not a heck of a lot of upside action. Technically, what's happened is that selling pressure has declined substantially, but there hasn't been much buying interest. Rallies based largely on a decline in selling pressure don't usually last very long.

The advance-decline ratio (see page 2 chart) has been notably sluggish. My Primary Trend Index (PTI) approached its declining 89-day moving average, then tipped to the downside. In his latest report Joe Granville (nobody else does this)

counts 656 NYSE stocks within one point of their 52-week lows (Granville, PO Box 413006, Kansas City, MO 64141).

As I see it, the KEY to this market lies in the APRIL BEAR MARKET LOWS of 3593.35 (D-J Industrials) and 1546.02 (Transports). Write these numbers down, and underline them! These are the prime targets of the bear. If the bear market is to continue and be reconfirmed, these lows must be jointly broken. If they are broken, I would expect the bear market to continue its downward course in earnest, and with a vengeance.

As I interpret it, this bear market is still in its first phase. In the first phase, the market erases the "fun and froth" and hyper-speculation associated with the preceding bull market final stage. The first phase of a bear market is discouraging, sometimes tedious. At this point in the first phase the public is unhappy but not yet frightened. They have pulled back on their buying, but are not yet actively selling.

If or when the April lows are violated, I expect the second phase of the bear market to begin. This is generally the longest (in duration) phase of a bear market. In the second phase the market goes down as it reflects deteriorating economic, political and social conditions. During the second phase corporate earnings contract, business conditions weaken, stocks get battered and the crowd (meaning the public) moves toward the exits. During the second phase of this bear market, I expect the mutual funds to begin a long, spiraling journey down. Many will be decimated, others will not survive at all. Believe me, it will not be a pretty sight (note: when I talk about mutual funds, I am not including the gold mutual funds).

The two scarcest commodities in investing are (1) knowledge and (2) patience. I try to provide a bit of number 1, but number 2 is up to each individual subscriber. It takes patience and a philosophical attitude to sit through a primary bear market. Remember, the bear's intention is to make "the water look inviting." Those who jump in the water in an attempt to "beat the bear" usually end up with thinner wallets and a few hastily sewn patches on the seat of their pants.

INVESTMENT POSITION:

You must be getting tired of hearing this. But here I go again -- the idea now is not to lose money. Why? Because the bear is in the box, which means we're in a bear market (or I should say the very early stages of a bear market). This is a difficult and deceptive stage of the bear market since the news is still quite good -- and the discouraged public can't understand why the stock market isn't roaring higher in tune with the news.



Of course the answer is that today's "good" news has been fully discounted. Note, however, that when earnings on a particular stock don't come up to expectations, the stock falls apart. This is typical bear market action. In a bull market they buy stocks on bad news (on the thesis that the news will get a lot better as the bull market moves on).

Stay in cash. Hold some gold, and some gold shares or a gold fund. Even if you're skittish, hold gold coins (I like the Krugerrands). Be patient, relax, smell the flowers, read a book, let your neighbor try to profit in this market, but you stay on the sidelines.

SIGNIFICANT HEADLINES: I've included three headlines, all from last week's *USA Today*. I feel they are all significant "bear market-type" headlines. The first shows consumer confidence still high, which is typical of the first (psychological) phase of a bear market. Many stocks have been hit hard, but consumers remain happy and hopeful -- with this kind of happy sentiment the public will continue to hold their stocks.

Consumer confidence riding high

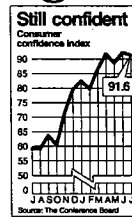
By Beth Beaton
USA TODAY

Consumer confidence remains near a four-year high despite rising interest rates, a flagging stock market and an ailing dollar. And consumers' good spirits could help keep the economy moving.

The Conference Board, a business research group, said Tuesday that its consumer confidence index slipped less than a point this month, to 91.6 from a four-year high 92.5 in June.

And despite that dip, the index — based on a monthly telephone survey of 5,000 households — shows consumers are "fairly upbeat."

Source: The Conference Board



Earnings are great; stocks barely budge

By Donna Rosta
USA TODAY

Investors figured corporate earnings would be good this quarter, just not this good. But they're still not good enough to give the broad market or many individual stocks a lift.

More than half the 4,000 companies Zacks Investment

► Earnings, 28
► Market
Scoreboard, 38

their highs — the Dow is 6% from its 3978 record of Jan. 31 and the Nasdaq down 11% from its March 18 high of 804.

The second headline shows that the good news has all been discounted by the market. Earnings are not what market students are focused on -- it's the market's reaction to earnings. So far, the market's reaction to earnings has been typical of what we can expect in a bear market -- good earnings bring a "so what" reaction, poorer than expected earnings bring on collapses.

Slumping business staggers brokerages

NEW YORK — The bad news on brokerages is out. Tuesday, Bear Stearns released dismal quarterly earnings, capping a string of weak results from full-service firms like Merrill Lynch to discounters like Charles Schwab.

Wall Street remains solidly profitable. But the recently ended quarter ranks as one of the brokerage industry's toughest since the recession. A handful of brokerages even

The early barometers of a bear market are the brokerage stocks. (Which is why I said months ago -- "Watch Merrill Lynch.") The brokers, in other words, are one of the first groups to suffer in a bear market and to prosper

during a bull market. Items: Merrill is down from its high of 51 to 36. Paine Webber is down from 23 to 15. Schwab is down from 38 to 26. Bear Stearns is down from 24 to 18. AG Edwards is down from 25 to 17, etc.

NOTES & QUOTES: I'm wondering whether the short interest and short interest ratio still have any meaning at all as far as market analysis is concerned. I also wonder about the worth of the widely-advertised "number of advisories that are bullish or bearish." Finally, I wonder about the barometric worth of "insider buying." As to the last, it probably means something in a bull market; in a bear market, forget it. As for the short interest, there's so much hedging and cross-trading with puts, calls, options, that I don't even look at the short interest any longer (although I once wrote a full length article for *Barron's* on the meaning of the short interest). There's just no substitute for price action. You can't manipulate or fool the price action, which is why the PTI works (it's all based on price action). One further comment: in a bear market many of the standard "bull market indicators" won't work. Reason: in a bear market the bears are correct.

Speaking of price action, be careful of low volume and dull areas in a bear market. Unlike the action during a bull market, dull, low volume areas in bear markets often precede major declines. Low volume in a bear market often implies that buying has simply dried up.

Does this mean anything? I note that more and more of the subscriptions coming here are from institutions, funds, pension plans, corporations, etc. as opposed to individuals. And it has me wondering. Is this telling me that the institutions are puzzled and are searching for advice? Or is this saying that corporations and institutions are becoming more market-oriented? Or do the outfits have so much money that they subscribe to a lot of advisories? Darned if I know, but it's interesting. Also, an increasing percentage of my subscribers are from foreign countries. I take this to mean that America no longer has a monopoly on "where the money is." In the past I could always tell where the money was -- from where my subscribers were concentrated (for a long time it was basically New York, California, Texas, Florida, Illinois). But now the mix is far more diversified. The fact is that with today's great communication capabilities, you can run a lot of businesses from just about anywhere.

Speaking of anywhere, my old buddy Harry Schultz is a firm believer in being an international person. His formula -- be a citizen

of one country, have your home in a second country, have your business in a third country. Harry has a truly global following. (He's been writing his famous report since 1961!) Harry tells me that an increasing number of advisory letter writers are heading for foreign lands. Life is too dangerous here, taxes are too high, too much red tape (*International Harry Schultz Report*, PO Box 622, CH-1001, Lausanne, Switzerland).

In case you're wondering, a few choice countries to move to are Costa Rica, Ecuador, Chile, New Zealand. Me, I'm staying in Southern California; been here too long; love the climate, love the life style, love the ocean, love the desert, love the mountains, hate California's blasted bureaucracy and its sky-high taxes.

There are 298,000 angioplasties performed in the US every year -- plus 265,000 bypasses. That's one hell of a lot of heart trouble. Since my running saga about EDTA chelation, I've been inundated with inquiries about the subject, and, unfortunately, I just can't answer all the letters received here. But here's the way to go. One of the best books on the subject is "The Chelation Answer" by Walker, Gordon and Douglass. Many "health food stores" carry this book, but if you can't find it write to Second Opinion Publishing Co., 1350 Center Drive, Suite 100, Dunwoody, GA 30338 or call (800) 728-2288 (the book costs \$16.95 plus \$2.50 for shipping and handling). Besides offering loads of valuable information, this book also conveniently lists most of the chelation doctors in the nation with their locations and phone numbers.

The Rwandan war and the current cholera epidemic is such an unmitigated disaster that it boggles the mind. Tens of thousands killed in the war, thousands dying every week. Then I think of the exploding world population which, at current rates, will reach possibly over ten billion by 2020 (it's 5.7 billion now). Besides polluting the world, the careening human population is presenting unbelievable problems of food, sanitation, and just plain politics (there are 26 wars going on as this is written). To my mind, the world faces a choice of either chaos or some sort of zero-population brake. Science and medicine have cured a lot of diseases. But nobody yet has cured human craziness and stupidity, as seen in Bosnia or Rwanda. Item: 100,000 children, so far, have lost their parents in the Rwanda tragedy, half a million have died. Item: Rwandan women average eight children per woman.

Wall Street here in the "Nutty Nineties" is raking in the dough. The years 1991, 1992 and 1993 were the three most profitable years in Wall Street history. *Financial World's* list of the 100 best-paid Wall Streeters had a cut-off last year of \$10 million (if you didn't make \$10 mil. you weren't on the list), and mighty Goldman Sachs distributed an after-tax \$1 billion to their partners. Wall Street sources say that the four great businesses of the 1990s are (1) issuing stocks and bonds; (2) trading securities and other investments, especially for the firm's own account; (3) managing other people's money; (4) expanding into overseas markets. As for number one, in 1993 there were (get this) 6,468 new underwritings for companies in the US compared with 1,830 in 1990 (and 1990 wasn't a bad year). But uh oh, 1994 has been just a fair year compared with 1993 (the bear market is starting).

As I've said before, today good grade jewelry is being bought as a store of value, particularly in view of the deterioration in paper or fiat money. I just received a report from Christie's on their recent Geneva sale of jewelry, and some of the prices received are spectacular. For instance, a 19.4 carat D-color diamond sold for a startling \$44,610 a carat. An 11.3 carat fancy intense yellow diamond went for an amazing \$58,170 a carat. Three fancy light blue diamonds (12.62 carats) sold for \$45,650 a carat. These are huge prices, and buyers arrived from all corners of the earth -- from NYC to Hong Kong, from Taipei to Riyadh. In each case, obviously, the buyers are swapping paper for a treasure of tangible value.

Along the same line, giant DeBeers has jumped into the fevered race to construct the first diamond mine in Canada's Arctic region. The secretive S. African company has decided to pump up to \$360

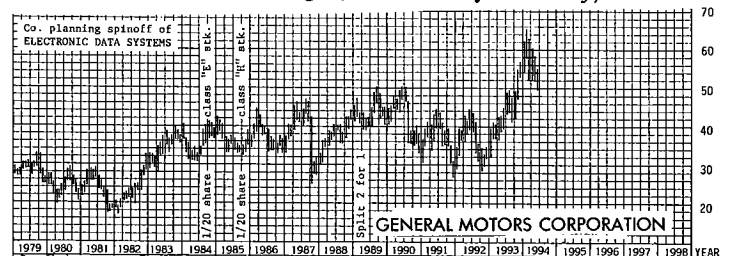
million into a promising diamond project. DeBeers controls around 90% of the world's diamond production. Through its Central Selling Organization (CSO), it also controls the great majority of world diamond sales. Item: the first six months of '94 saw DeBeer's CSO diamond sales reach a record \$2.58 billion. I mean, that is one heck of a lot of diamonds.

Speaking of treasure, Merrill Lynch and a group brought out a rare coins fund some years ago. But it seems that of the \$16 million fund, some \$3.3 million or 399 of the coins are missing. Last week two San Diegans filed a suit in Superior Court charging fraud and deceit. Russell comment: Those rare coins, they're beautiful and some people just can't resist "collecting" them.

This from a *NY Times* magazine article (July 17): "Gambling is now bigger than baseball, more powerful than a platoon of Schwarzeneggers, Spielbergs, Madonnas and Oprahs. More Americans went to casinos than to major league baseball in 1993. 92 million visits! Legal gambling revenues reached \$30 billion, which is more than the combined take for movies, books, recorded music, park and arcade attractions. 37 states now have lotteries; 23 have sanctioned casinos. More than 60 Indian tribes have gaming compacts with 19 states. As this century turns, it's expected that all Americans will live within a four-hour drive of a casino" . . . Indian gaming took in \$15.2 billion in 1992 . . . *Gambling and Wagering Business* magazine, in its most recent survey, figured the aggregate illegal take for horses and sports betting, cards and numbers to be \$43 billion. Russell comment: Barnum stated, "There's a sucker born every minute." And Barnum was right, but now the whole US has turned into a nation of suckers.

I'm one of those guys who reads the "Letters to the Editor" in the newspapers. And some of the letters are very good. Here's one from last week's *San Diego Union*. The writer notes that politicians are complaining about rising cynicism among US voters. Then he writes, "My goodness, really. As one who lived through the 'temporary' tax in the '40s to conserve rubber for the war effort, the 'temporary' tax on telephone service, the 'temporary' imposition of income tax withholding and -- my personal favorite -- the solemn promise that our Social Security would 'never' be used for anything except Social Security purposes, my feeling is that the concern about cynicism may be coming a touch late. But then I've been exposed to JFK's 'missile gap,' LBJ's '1,000 Vietnam lies,' 'Tricky Dick', Jimmy Carter's 'I'll never lie to you,' and Slick Willie's 'middle class tax cut'." Russell comment: When you think about it, how do we put up with these people? Jesus said, "The truth shall make you free." If the truth will make us free, then we're all still passive prisoners of the politicians.

The 1994 high for GM was 65 3/8. I don't know how many of you ol' timers remember, but the "rule" (market adage, time-honored observation) is that if six months go by without a new high in GM, that failure constitutes a "sell signal" or "bear signal" for the market. The monthly chart of GM is shown below -- six months have gone by and no new high (chart courtesy of *Horsey*).



Economists promising a prosperous '94 and beyond are puzzled by one item -- orders for capital goods have dropped for five months in a row. In previous economic cycles capital good orders have proved to be a good leading barometer.

Charity, charity, charity for whom? Does this make your blood boil? In 1991 38.9 cents of every dollar spent by the American Cancer Society went to executive and staff salaries and members of the medical establishment. The American Cancer Society (end of

'93) had a net worth of \$520 million and owned more than \$61 million in real estate and equipment . . . The American Heart and Lung Assoc. spent 42.5 cents of every dollar on compensation. The American Lung Association spends less than 1% on direct assistance to lung patients. "The Big Three" have \$10 billion in annual revenue and millions of volunteers. The Big Three state that they spend a lot of their money on disease education. Oh, I didn't know.

The Federated/Macy's merger really is quite a merger. Under one corporate roof we will now have Macy's, Bullocks, I. Magnin, Abraham Strauss/Jordan Marsh, Bloomingdale's, The Bon Marche, Lazarus, Rich's/Goldsmith's, Burdines, Stern's. Listen to this clout -- Federated will have 341 department stores plus 111 from Macy's, located in virtually every major market in the US. Their combined sales will be \$13.5 billion, the nation's largest department store group.

Odds and Ends: Movies I loved this year: Clint Eastwood's "In the Line of Fire," (Malkovitch is a fabulous villain); Altman's "Short Cuts," brilliant, but not many people saw it . . . Thank God it's football time. Last week I went up to UCSD where the San Diego Chargers work out. It's relaxing and it's free. You're sitting in the sun and watching those guys work out. They looked great. Yeah, but they always do before their first game . . . Boy, are we having a drought in Southern California; I can't even remember what rain looks like . . . Rode my Harley down to Tijuana the other day. As soon as you get across the border, you know you're in a third world country. The usual paradox -- signs of big money and abject squalor everywhere. A few months ago they shot and killed Tijuana's chief of police. A top candidate for president of Mexico was also shot here around the same time.

Hard to believe, but Hillary's questionable \$99,000 commodity profit has lured a slew of new players into trading commodities. Roughly 75% of commodity traders lose money in commodity trading -- yet hope springs eternal.

First lady's profit lures investors to commodities

By Eric D. Randall
USA TODAY

Hillary started something. Investors have been flocking to commodity markets. Trading in cocoa contracts has jumped more than 50% the first half of the year. Cotton contracts volume has surged almost 75%. More than \$200 million has been invested with 10 agricultural commodity advisers tracked by *Managed Account* Reports newsletter. That's up more than 30% from 1993.



By Mike Adams, ABC
CLINTON: Made almost \$100,000 in cattle futures.

Learning about futures contracts
Want to play the commodity game? The National Futures Association has free pamphlets: *Understanding Opportunities and Risks in Futures Trading* and *Buying Options on Futures Contracts*. Call 1-800-621-3570, in Illinois, call 1-800-572-9400.

well-timed trades in cattle futures in the late '70s. "The press on Hillary Clinton, no matter how dubious, has piqued a lot of people's interest," says Barrett LeFebvre, senior futures market analyst at brokerage Lind-Wallock. This year, though, prices have been erratic. The Commodity Research Board index of 21 commodities leaped nearly 6% from Dec. 31 to June 30, but has since tumbled 4%. Lumber could be the next hot commodity. Wednesday, the price of lumber contracts jumped \$10 -- maximum

weather. Two surprise winter frosts in Brazil sent coffee prices to an eight-year high of \$2.47 a pound June 13. Wednesday's close \$2.21. Inflation fears. Investors have been jumping in and out of precious metals as inflation expectations change. Gold prices are down slightly this year; silver is up 4%. Commodity investing is risky. About 75% of Lind-Wallock's 18,000 customers lose money. Many are one-time traders who act on a tip. You must be able to absorb big losses, Lind-Wallock requires

A few years ago when everyone was talking about the great new markets of Asia, I commented that not only would Asia be a big new market for sales, but it would also be a source of tough competition, cheap labor and supply. Seems that's what's happening. In June Japan's trade surplus with the US jumped 43%. And the US deficit with China grew by \$432 million to \$2.2 billion, second largest shortfall behind Japan. The current issue of *Fortune* has an article on Taiwan, an island which has become a fantastic "exporting machine."

Future multi-millionaires all start in the mail room of William Morris. That includes Barry Diller, David Geffen, Michael Eisner and many others. Barry's got his problems, now that the Paramount and the CBS deals have fallen through. One rumor has it that Barry will still be president of CBS (somehow). Another rumor is that he'll quit QVC and land an equity job somewhere else. As for Michael, he's just had a quadruple bypass, and he has to decide whether or not to make ambitious Jeffrey Katzenberg number two at Disney. Michael, if you're reading this here's my advice -- you're only 52 and you've had bypass surgery, get chelation treatments, or in ten to 12 years or less you'll be ready for another bypass.

Whining -- President Clinton is bitter about all the people who are bad-mouthing him. The reason the Prez is having so much trouble at the polls, he complains, is an "incessant drumbeat of cynicism"

by conservatives and the press. Clinton complains that his motives are pure and for that reason people should get behind him and support all the good things he is doing for the nation. Russell comment: Gee, I didn't know. Guess I should shut up and just let the Prez help America.

Aw, I can't resist this one (courtesy of Howard Phillips by way of Julian Snyder). Bill Clinton's Four Biggest Gifts to the American People:

- (1) He's made George Bush look decisive.
- (2) He's made Jimmy Carter look competent.
- (3) He's made Lyndon Johnson look honest.
- (4) He's made Jack Kennedy look faithful.

Both Hillary's and the President's approval ratings (popularity) have dropped to new lows (around 42%). In all seriousness, I have wondered why. My conclusion: they're both hypocrites and neither comes out with the full truth about their past actions. What started it was all the Clintons' early talk about the "rich cheaters" of the '80s, the "fat cats" who grabbed the money while the middle class struggled. Then it turned out that both Clintons were into the candy jar with both hands, grabbing all the money they could (much of it via highly questionable deals). Americans hate hypocrites, and the Clintons reek of hypocrisy. By the same token, Americans have a low opinion of Congress, since it is clear that Congress makes the laws, but then it doesn't live under the damnable laws which they inflict on us (more hypocrisy).

Once the American people perceived the hypocrisy of the Clintons, the pieces fell into place. We distrusted everything they were up to. And the Clintons lying or covering up about their past simply exacerbates the situation. So ugh, I've had enough of the Clintons, and I'm betting that most Americans have as well. (P.S., if it makes you feel any better, I felt the same way about LBJ and Kennedy.)

An editorial in the thoroughly Democratic *New York Times* (July 21) startled me. It had to do with Clinton's asking Eugene Ludwig, Comptroller of the Currency, for advice. (To his credit, Ludwig turned Clinton down.) Said the *Times*, "It is embarrassing to find the President himself contributing to what has been a disturbing pattern of indifference to bureaucratic protocol and regulatory independence . . . As a lawyer who has spent his life in politics, Clinton cannot claim ignorance of the common sense rules that apply to conflict of interest at all levels of government. This is sloppy behavior and a dangerous example in an Administration that wants to throw away the rule book." Even the *Times* has about had it.

The "A to Z Spending Cuts Plan" is approaching the magic 218 votes, which will get it out and onto the Congressional floor for a vote. The plan would allow the House to conduct a 56-hour special session during which any member could propose a single cut. Each spending cut would be debated and voted on in one hour. This, in effect, would give a line-item veto to the full House. The A to Z concept (named after Rob Andrews (D., NJ) and Bill Zeliff (R., NH) could foment a revolution in cost-cutting, that is, if it passes. Actually, the concept scares the hell out of Congressmen who represent special interests (and don't they all).

Remember Saddam and Iraq? The country faces economic collapse. Prior to Iraq's invasion of Kuwait the Iraqi dinar was worth 33 cents. Well, the dinar's been crashing. This month the dinar's value has fallen from 400 to the dollar to over 500 to the dollar. Inflation in Iraq has been exploding and Saddam has put in a series of 13 tough new laws to stabilize the dinar. The steps include punishing thieves, money changers and profiteers. The punishment -- amputation of limbs. Perhaps worst of all, official corruption is rampant in Iraq with shopkeepers reporting visits by security men with extortion on their minds.

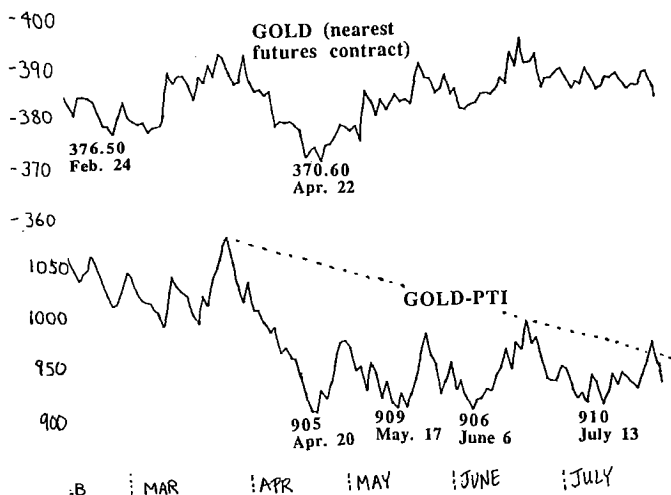
Ya gotta have the right genes: Jackie Kennedy Onassis told a friend just before she died, "I don't get it. I did everything right to take care of myself and look what happened. Why in the world did I do all those push-ups?"

Hey, they're making fun of what's left of our dollar. But what do we care -- who needs Europe, we'll just take our vacations in the good ol' USA.



GOLD: There's an old stock market adage which states, "The market may try a move three times. When that occurs, watch carefully, because on the fourth try the market will either make it BIG or fail BIG." I'm watching my Gold-PTI with this in mind. As stated in the last Letter, the G-PTI tried in April, May and June to break below the 900 level. Each time 900 held. Then in July the G-PTI tried for the fourth time to break under 900 and again it failed.

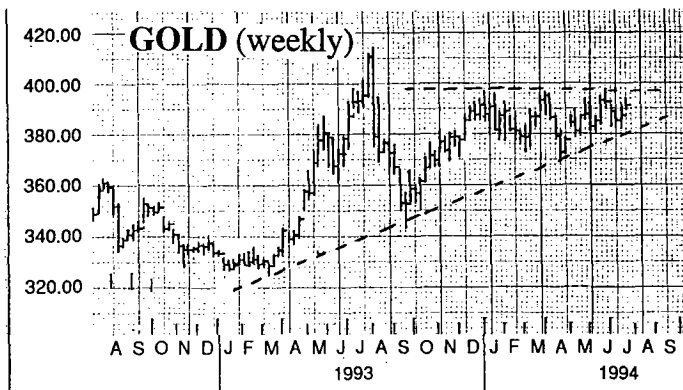
From the 910 low of July 13, the G-PTI turned up. On July 27 the G-PTI broke above the declining trendline as shown on the accompanying chart. And I wondered, could this be "the start of a bull move for gold?" Not yet, it seems.



On July 28 gold did appear poised to move above the very important 390 level. Then towards the close of the session gold suddenly dropped almost three dollars. This was the umpteenth time that this has occurred -- namely, gold appearing ready to move out -- and then wham, it gets hit.

I am more and more convinced that gold is being manipulated. The Fed made it clear that it does not want gold above 390, and certainly they do not want it above 400. But each time gold is knocked down, it comes back -- seemingly to try again for the 390 level. The situation's becoming almost comical. And the more I see of this action, the more convinced I am that gold is being manipulated. (After all, we know that the Fed manipulates the money market, so why not the gold market?)

Turning to the larger picture. This weekly chart of gold (courtesy of *Dunn & Hargitt*) presents us with that classic pattern of accumulation -- the ascending triangle. You can see how important a rise above 400 would be (and why the Fed is so afraid of gold breaking out above 400). So all in all, I believe we're seeing a classic struggle by the government against the market forces. Ultimately, the market forces will win. But it takes TIME.



I can't prove it, but I "feel" that IF the whole gold spectrum moves up, the metal will lead the stocks. However, my G-PTI is very definitely based on the gold stocks as well as the metal itself, so that if the G-PTI goes into a decisive bull trend, be assured that the gold shares will move up as well.

Platinum, by the way, spurted to a 3 1/2 year high last week. The reason given was heavy buying by the Japanese (who prefer platinum to gold for their jewelry).

Conclusion: There's only one way to describe the gold action so far in 1994 -- frustrating, particularly for those who have been trying to trade gold or for those who have purchased gold options. The best policy for new subscribers wanting a gold position is to take a limited position in gold or a gold fund and just sit tight. **Item:** Canada sold 276,000 ounces of gold in June, dropping their reserves to the lowest level since the early 1940s (and note, by the way, that the Canadian dollar now sells for a lowly 72 cents).

LATE NOTES: The currencies (pound, yen, Swissie, D-mark appear to have formed tops, while the dollar appears to have bottomed. But with the collapse of US-Japanese talks last week the dollar again fell sharply against the currencies, particularly the yen, but the dollar did not fall to a new low. My guess -- the dollar is now in a trading range with the lows having been seen, at least for a while.

The Dow during 1994 has been dramatically stronger than the rest of the market. And the stronger Dow has covered up billions of dollars in losses in other stocks (for proof, just glance through any stock chart book). One caveat here -- the market has also been doing a lot of "churning." The churning is revealed in the very thin plurality between daily advances and declines on the NYSE exchange. For instance, on many days when the Dow has been up ten or 15 points, advances and declines on the NYSE have been almost even. This churning tells us that many stocks are being sold under the guise of "Dow strength." Extended periods of churning are characteristic of the early formation of market tops.

Another observation: on the latest Dow rally the Transportation Average has very definitely lagged. Thus, note on the page 1 chart that we have a case of near-term divergence. Without Transports' participation, any Dow rally is suspect.

On Friday, July 29, we had our first really impressive upside day in the stock market. Now, expect to hear cries of "the bull market is back, it's alive." But don't believe it. What we've had so far this year is a breadth collapse (which means the majority of stocks have been hit and hit hard), while the Averages never fell below their April bear market lows. Watch the Transports on the current rally, if they continue to lag there'll be trouble ahead.

NEXT MAILING: Aug. 17, 1994